

FRINGE BENEFITS

FINANCIAL SUMMARY

	FY 2004 EXPENDITURE	FY 2005 APPROPRIATION	FY 2006 REQUEST	GOVERNOR RECOMMENDS FY 2006
OASDHI Taxes	\$ 136,738,569	\$ 147,685,654	\$ 147,714,782	\$ 152,417,692
Missouri State Employees' Retirement System	170,808,317	208,143,355	208,187,790	247,318,818
Teacher Retirement Contributions	2,523,864	3,580,060	3,565,560	3,565,560
Deferred Compensation	11,152,524	12,367,442	12,371,288	12,371,288
Unemployment Benefits	5,347,265	3,902,701	3,903,691	3,903,691
Missouri Consolidated Health Care Plan	280,338,300	322,008,403	349,952,398	330,126,779
Workers' Compensation	25,008,206	18,390,000	24,178,654	23,178,554
Other Employer Disbursements	5,462,260	5,594,437	5,594,437	5,594,437
TOTAL	\$ 637,379,305	\$ 721,672,052	\$ 755,468,600	\$ 778,476,819
General Revenue Fund	424,157,043	445,183,121	469,114,563	487,975,454
Federal Funds	106,402,406	139,645,514	145,466,039	148,074,289
Other Funds	106,819,856	136,843,417	140,887,998	142,427,076

POLICY SUMMARY

Governor Blunt's Fiscal Year 2006 budget provides a total of \$778.5 million for employee benefits. Employment benefits are centralized for all state agencies with the exception of retirement and health care benefits for the Highway Patrol, the Missouri Department of Transportation, and health insurance for the Department of Conservation. Employee benefits include:

- Retirement
- Health insurance
- Life and long-term disability insurance
- Social Security
- Workers' Compensation
- Unemployment benefits
- Deferred Compensation
- Job-related legal expenses

Missouri Consolidated Health Care Plan (MCHCP)

MCHCP began its operations 11 years ago to provide affordable, accessible, and quality health care for state employees and their families. In 1995, municipalities and other public entities were allowed to join MCHCP, building a larger pool of members and greater bargaining power for lower cost medical services. From 2001 to 2004, the cost of health insurance for the state rose an average 13 percent. To combat the rise in health care costs, MCHCP continues to increase the level at which they are self-insured. From 2004 to 2005, MCHCP will go from 33 percent self-funded to 86 percent self-funded for state members. Even though being self-funded causes the state to retain more risk, it can lower overall administrative expenses as profit margins are no longer included in costs and in many circumstances, additional risk charges can be minimized.

MCHCP provides pharmacy benefits to most state employees, retirees, and their dependents, covering more than 100,000 lives. Pharmacy benefit inflation is a significant driver of health care costs for MCHCP and for employee benefit plans in general. Prescription drug costs have been increasing about 16 percent per year and account for about 10 percent of national health care costs. MCHCP continues to maximize cost saving efforts. Pharmacy benefits were carved out from six health plans, and MCHCP entered into a single contract with Express Scripts to consolidate benefit management for all state members.

- A uniform, three-tiered co-payment structure was created – \$10 generic, \$25 preferred brand, \$40 non-preferred brand.
- A "mandatory generic" program was instituted. When an equivalent generic is available, the member must substitute the generic brand or pay the actual cost difference.
- Manufacturer rebates were returned to the MCHCP rather than to the health plans.
- Since 2001, the MCHCP has participated as a charter member of a seven-state joint purchasing workgroup, referred to as Rx Issuing States, to assist in containing pharmacy costs.

To continue providing health insurance for state employees and retirees, the Governor recommends:

- \$12 million for continuing benefits for calendar year 2005 and for projected inflation for the first six months of 2006.

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POLICY SUMMARY (Continued)

Missouri State Employees' Retirement System (MOSERS)

MOSERS was established September 1, 1957, to provide retirement, survivor and disability benefits, and life insurance benefits to its members. MOSERS administers retirement benefits for most state employees, including members of the General Assembly, elected state officials, administrative law judges, legal advisors, and judges. MOSERS is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly and bears a fiduciary obligation to the state employees who are its members and beneficiaries.

As of June 30, 2004, MOSERS was one of the 200 largest defined benefit plans in the United States with total assets of just under six billion dollars. According to the Independent Consultants Cooperative (ICC), the fund generated a return of 17.1 percent net of expenses for the year, placing MOSERS' investment return in the top twenty percent among public pension funds with assets in excess of one billion dollars. Over a ten-year period, MOSERS' performance of 10.2 percent on an annualized basis has well exceeded the required annual return of 6.8 percent necessary to fund the liabilities during this same period.

To continue providing retirement benefits, the Governor recommends:

- \$31.5 million to increase the contribution rate as a percentage of payroll from 10.64 percent to 12.59 percent.
- \$2.4 million for increased costs to the state for retirement benefits due to pay plan.

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CONTRIBUTION TO OASDI TAXES

The State of Missouri pays the employer's share of federal Old Age and Survivors Disability and Health Insurance contributions on the salaries of all state employees, with the exception of employees of the state universities and four-year colleges. These funds are transferred to a contribution fund for matching payments to the Social Security Administration.

Fiscal Year 2006 Governor's Recommendations

- \$4,920,000 to realign the budget to meet estimated expenditures and for Social Security taxes for new staff statewide, including \$2,368,000 general revenue.
- \$986,000 for increased costs to the state for Social Security benefits due to the pay plan, including \$732,000 general revenue.
- \$29,128 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.
- (\$1,203,090) core reduction from the Fiscal Year 2005 appropriation level for savings due to closing the Bellefontaine facility and forming a private-public partnership for the Independent Supported Living Program within the Department of Mental Health.

CONTRIBUTION TO MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM

The State of Missouri provides an employer funded retirement program for employees through a contribution of a specified percentage of members' wages to the Missouri State Employees' Retirement System. Included in the state's contribution is a payment per month, per eligible employee to the Missouri State Employees' Benefit Plan and a payment of long-term disability premiums.

Fiscal Year 2006 Governor's Recommendation

- \$37,664,000 to realign the budget to meet estimated expenditures and to increase the state contribution rate as a percentage of payroll from 10.64 percent to 12.59 percent, including \$23,639,000 general revenue.
- \$2,441,000 for increased costs to the state for retirement benefits due to the pay plan, including \$1,534,000 general revenue.
- \$1,166,000 for new staff statewide.
- \$44,435 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.
- (\$2,139,972) core reduction from the Fiscal Year 2005 appropriation level for savings due to closing the Bellefontaine facility and forming a private-public partnership for the Independent Supported Living Program within the Department of Mental Health.

TEACHER RETIREMENT CONTRIBUTIONS

Section 104.342, RSMo, has been revised to provide that the Commissioner of Administration shall requisition monthly and certify the payment of contributions to the Public School Retirement System (PSRS). Authority to transfer and expend these monies is required to comply with statutory provisions. Certified teachers involved are employed by the Department of Elementary and Secondary Education, Department of Mental Health, Department of Social Services, Department of Corrections and remain members of the PSRS.

Fiscal Year 2006 Governor's Recommendations

- (\$14,500) Video Instructional Development and Educational Opportunity Fund core reduction from the Fiscal Year 2005 appropriation level.

DEFERRED COMPENSATION PROGRAM

The Missouri State Public Employees Deferred Compensation Commission was created by Sections 105.900 to 105.927, RSMo, to encourage employees to supplement the Missouri State Employees' Retirement Plan and their Social Security. Participation in the Deferred Compensation Plan doubled after the \$25 per month match was legislated in 1996. Approximately 39,000 employees qualify for the match.

Fiscal Year 2006 Governor's Recommendations

- \$3,846 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.

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DISBURSEMENT FOR UNEMPLOYMENT BENEFITS

The State of Missouri, as a governmental entity, is required to pay contributions to the Division of Employment Security as specified by law so that unemployment claims may be paid to former employees. A governmental entity may elect to either pay contributions in advance based on a statutory formula or to reimburse the Division of Employment Security for actual claims paid out to former employees. The State of Missouri utilizes the reimbursement for actual claims paid option. By using this deferred method of payment and one central appropriation, the state simplifies the administration of unemployment benefits.

Fiscal Year 2006 Governor's Recommendations

- \$990 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.

MISSOURI CONSOLIDATED HEALTH CARE PLAN

The Missouri Consolidated Health Care Plan administers health care benefits for state employees. In 1995, municipalities and other public entities were allowed to join the Missouri Consolidated Health Care Plan as well, building a larger pool of members and greater bargaining power for lower cost medical services.

Fiscal Year 2006 Governor's Recommendations

- \$12,000,000 to continue benefits for calendar year 2005 and expected increases for the first half of calendar year 2006, including \$8,040,000 general revenue.
- \$7,691,066 to adjust the portions of benefits paid from general revenue to more accurately reflect anticipated costs.
- \$84,643 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.
- (\$7,691,066) federal and other funds core reduction from the Fiscal Year 2005 appropriation level to correct the distribution of appropriations between general revenue, federal, and other funds.
- (\$3,966,267) core reduction from the Fiscal Year 2005 appropriation level for savings due to closing the Bellefontaine facility and forming a private-public partnership for the Independent Supported Living Program within the Department of Mental Health.

WORKERS COMPENSATION

The State of Missouri is responsible for payment of Workers' Compensation benefits to injured state employees in accordance with Chapter 287, RSMo. The payment of Workers' Compensation benefits for all state employees, excluding the Department of Transportation, the Missouri State Highway Patrol, and the University of Missouri system, is covered under this program and is administered by the Office of Administration's Division of General Services. Payments made by general revenue on behalf of employees paid from other funding sources are transferred from these funds back to general revenue. As a Workers' Compensation self-insurer, the state pays its Workers' Compensation tax and Second Injury Fund assessments based on billings received from the Department of Insurance and the Division of Workers' Compensation.

Fiscal Year 2006 Governor's Recommendations

- \$3,900,000 to bring the Workers' Compensation core appropriation in line with estimated Fiscal Year 2006 expenditures.
- \$885,000 to pay Workers' Compensation tax and Second Injury Fund assessments, including \$865,000 general revenue.
- \$3,654 transferred from the Department of Mental Health for new staff in the Division of Alcohol and Drug Abuse.
- (\$100) transferred to the Office of Administration for information technology resources that will be administered by the Division of Information Services.

OTHER EMPLOYER DISBURSEMENTS

VOLUNTARY LIFE INSURANCE

State employees may opt to withhold funds for voluntary life insurance. This appropriation provides expenditure authority to distribute the monies withheld to the various life insurance companies as designated by the employees.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

FRINGE BENEFITS

CAFETERIA PLAN TRANSFER

The state offers a tax reduction plan for state employees. The federal government requires the state to provide a sufficient balance in the medical expenses category for timely reimbursements to plan participants.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

HUMAN RESOURCES CONTINGENCY FUND TRANSFER

This transfer section has been added to ensure that payroll checks submitted for payment against accounts with temporary allotment or fund cash flow problems can be generated within the time constraints of pay period processing.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.

LEGAL EXPENSE FUND

The State of Missouri, its agencies, officials, appointees, and employees are exposed to liability in the conduct of official state business. The Office of Administration, in association with the Attorney General's Office, seeks to provide a means to fund claims and judgments against these individuals and agencies in the most cost-effective manner possible. The State Legal Expense Fund was created to pay claims against the state, its officers, and employees as provided under Section 105.711, RSMo.

Fiscal Year 2006 Governor's Recommendations

Continue funding at the current level.